Ohio | **Public Utilities Commission**

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FILE

October 8, 2019

Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street
Columbus, OH 43215

RE: *In the Matter of the Application of the East Ohio Gas Company d/b/a/ Dominion East Ohio for Consent and Authority to Issue Long-Term Note*

Dear Docketing Division:

Enclosed please find the Staff's Review and Recommendation in regard to the Application of the East Ohio Gas Company for d/b/a/ Dominion East Ohio for Consent and Authority to Issue Authority to Issue Long-term Note. Case No. 19-1746-GA-AIS.

Doris McCarter
Chief, Capital Recovery and Financial Analysis Division
Public Utilities Commission of Ohio

Enclosure
Cc: Parties of Record

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of The East Ohio Gas Company d/b/a/ Dominion Energy Ohio for Consent and Authority to Issue a Long-Term Note	))))	Case No. 19-1746-GA-AIS

Staff Review and Recommendation

APPLICATION DESCRIPTION

On September 6, 2019, The East Ohio Gas Company d/b/a/ Dominion Energy Ohio ("DEO" or the "Company") filed its application and exhibits ("Application") pursuant to Ohio Revised Code 4905.40 and 4905.41, requesting Public Utilities Commission of Ohio ("Commission") authorization to issue and sell a long-term note ("Note"), to its immediate parent company Dominion Energy Gas Holdings, LLC ("DEGH") in an aggregate principal amount of up to $250 million. The Note will be issued with a maturity of not more than 30 years from the date of issuance and will carry a market rate of interest to be determined at the time of issuance, but it is currently expected to be approximately 4.0 percent based upon market conditions at the time of the Application.

DEO proposes to use the proceeds from the Note to finance the acquisition of property, finance construction, completion, extension, renewal, and improvement of its facilities; for the reorganization or readjustment of DEO's indebtedness and capitalization to more closely align DEO's actual capital structure and the capital structure approved by the Commission in DEO's most recent rate case.

REVIEW AND ANALYSIS

DEO is a wholly owned subsidiary of DEGH, which in turn, is a wholly-owned subsidiary of Dominion Energy, Inc. ("Dominion"). DEGH is the intermediate parent company for the majority of Dominion's regulated gas operating companies. DEGH serves as the primary financing entity for its subsidiary regulated natural gas businesses. DEGH has investment grade ratings of A3/stable (Moody's), BBB+/stable (Standard and Poor's), and A-/stable (Fitch).

The interest rate for the Note will be determined at issuance and will be based on the actual 30-year U.S. Treasury Rate plus a credit spread adder that represents the current credit risk premium of DEGH at the time of issuance. DEGH credit spreads represent a view of the anticipated level at which DEGH would be able to issue new senior unsecured notes. This spread is based on the implied credit risk of DEGH on the secondary trading levels of outstanding DEGH bonds. The Note will be non-amortizing with the $250 million principal amount due at maturity.

DEO proposes to use the proceeds to pay off one series of its long-term notes of $115 million maturing December 1, 2019. The balance of the proceeds from the Note will be used to pay off short-term debt accumulated primarily due to the financing of DEO's capital expenditures. As a portion of the proceeds are going to be used to pay off short-term debt used to fund the Company's construction projects, it is worth mentioning that DEO's actual construction expenses for 2018 was $369 million. DEO's anticipated capital expenditures for 2019 is approximately $338 million.

The following table summarizes the anticipated impacts to the capitalization structure of DEO resulting from the issuance of the Note.

	Actual 06/30/2019 (MM's)	(%)	Pro-forma (MM's)	(%)
Long Term Debt	$1,665	48%	*$1,800	49%
Common Equity	$1,775	52%	** $1,864	51%
Total Capitalization	$3,440	100.0%	$3,664	100.0%

* *reflects issuance of $250 million Note and the pay off of 2009-A long-term note of $115 million maturing December 1, 2019.*

***reflects increase in equity from projected net income of $91 million (from July 1, 2019, through December 31, 2019).*

The proposed financing results in a modest change to DEO's capitalization on a pro-forma basis. The pro-forma capitalization structure shows that the financing along with the anticipated equity growth will closely align DEO's capital structure to the capital structure approved by the Commission in DEO's most recent rate case (PUCO Case No. 07-829-GA-AIR), which was 48.66% debt and 51.34% equity.

STAFF RECOMMENDATION

Upon review of the Application and supporting documentation, Staff believes DEO's request to issue the Note appears reasonable and recommends its approval with the following conditions:

(a) In the event the credit rating of DEGH and/or Dominion is downgraded or placed on credit watch with negative implications, DEO will notify the Commission by docketing the change within 10 days of such event, in this case docket, so that the Commission may consider whether any safeguards or conditions need to be imposed upon DEO's authorization to borrow through the Note.

(b) Although DEO did not state a maximum interest rate in its Application and plans to issue the Note soon after Commission authorization, Staff believes that it is prudent to provide DEO with a maximum interest rate parameter for this issuance of 5.0 percent. Staff's recommendation of a maximum allowable interest rate parameter in no way relieves DEO from obtaining the best terms available at the time of issuance.

(c) That DEO will file in this docket, the full particulars of the Note within 30 days of its issuance to DEGH.